

PROCESS TO THE AUDIT THE PERFORMANCE OF INVESTMENT PORTFOLIOS

Abstract

The present invention is a process to audit the performance of investment professionals in carrying out the responsibilities involved in managing the investment performance of an investment portfolio. It is unique from existing processes to evaluate investment manager performance in that its evaluative methodologies conform to the minimum standards of required of an audit process in that the evaluative findings are complete, unbiased and consistent over time. The findings derived from the method are complete because it includes the review of four specific selection functions critical for sustaining relative portfolio performance over time and generates an explicit evaluation of each of these four functions. The findings derived from the method are unbiased and consistent because they measure manager performance relative to whole-population samples of managers engaged in the same functional activities over multiple market periods. Existing systems benchmark manager performance against securities-market indices or narrow samples of investment manager populations,

which have been shown in use to generate biased and inconsistent measurements as market conditions change. This capability to produce an evaluation of investment manager performance of audit quality arises from the insight that functions involved in selecting an investment portfolio can only be evaluated from the perspective of benchmarks generated from complete populations of alternative selection strategies if such an evaluation is to be complete, unbiased and consistent over time.